

August 20, 2004

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SEP 13 PM 2:30

Honorable Sharon Brown-Hruska
Acting Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

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Dear Commissioner Brown-Hruska:

As a longstanding participant in futures markets, I am writing to express my strong objections to the recent announcement by Eurex US that they are drastically reducing their thresholds for executing noncompetitive "block trades" in the US Treasury Futures markets. According to a recent press release, Eurex US has reduced the minimum quantity thresholds for 30 Year Treasury Bonds from 1,500 contracts to 500 contracts during the hours of 7:20 a.m. -2 p.m. and 250 contracts during their extended market hours. In the 10, 5 and 2 Year Treasury notes, their minimum quantity thresholds will be reduced to 1,000 contracts from 2,500 during the hours of 7:20-am-2:00pm and 250 contracts during their extended market hours. Eurex US has also doubled the length of the reporting period for larger block transactions involving quantities of 2,500 or greater to 30 minutes. These modifications which have been self certified by Eurex US give them and their eligible block trading participants, license to undermine price discovery integrity by allowing transactions that could reasonably be expected to be executed in the centralized "open" marketplace to be executed away from the current bid/offer to the complete exclusion of the general marketplace. These actions clearly compromise the core principles of regulated futures markets which are supposed to ensure that futures exchanges provide open and transparent environments where price discovery occurs in a centralized marketplace.

Instead, by allowing Eurex US to reduce its block trading thresholds which may only be used by a segment of the marketplace, it appears that the CFTC is willing to sacrifice market transparency and price discovery integrity without considering the potentially devastating impacts such actions could have on the entire financial futures markets. Allowing block trades to occur at such low quantity levels creates a "real" disincentive for daily liquidity providers such as myself to trade Eurex US and possibly any other financial futures markets now that the bar for engaging in block transactions has been lowered to a level that encourages off exchange prearranged noncompetitive trading with minimal restrictions. Market makers, retail customers and, believe it or not, many institutional customers value the market transparency and true price discovery that is inherent in a centralized market. What is our incentive to trade in these markets if we are continuously vulnerable to the risk of being picked off in the central marketplace by a certain segment of traders who have engaged in a prearranged block trade at an off market price. These new thresholds adopted by Eurex US opens the door for markets to become distorted and fragmented.

No one can argue that by adopting these changes, eligible block trading participants on Eurex US will have special access to trade information and a noncompetitive advantage over the general centralized marketplace because such transactions can be prearranged at relatively low quantity levels without the general marketplace having any access or knowledge of the block transactions for a protracted time period. Without question, the lower quantity thresholds could reasonably be expected to be consummated in the open centralized market. However, instead Eurex US are advocating these trades be executed at "secret prices" that do not have to be disclosed to the centralized market for 15-30 minutes which is an eternity in the electronic trading arena.

Core Principle 9 of section 5(d) of the Commodity Exchange Act ("Execution of Transactions") requires every board of trade to provide a competitive, open and efficient market and mechanism for executing transactions. Part 3 of the Commission's application guidance for complying with Core Principle 9 further requires a designated contract market which determines to allow block trading to ensure that the block trading does not operate in a manner that "compromises the integrity of prices or price discovery on the relevant market." Given these requirements that have been adopted by Congress and the Commission, it is a reasonable concern that by allowing block trades to be transacted at these new levels, Eurex US is advocating, and the Commission is sanctioning, special treatment for a special class market participant to the complete detriment of the centralized marketplace. The general population of market makers and customers which come to these markets to trade and provide liquidity in US Treasury futures will suffer because the integrity of price discovery in these markets is clearly being compromised.

The provisioning of block trading in futures markets was originally designed to offer greater flexibility to "sophisticated and well capitalized" market participants who need to execute "large quantity" orders in a single transaction. Generally, the underlying principle has historically been that such transactions may only be executed outside the centralized marketplace if the liquidity in such market is not sufficient to facilitate the execution of the order. By allowing trades to be executed at such low quantity levels, Eurex US is making a mockery out of this core principle and is encouraging a bifurcated marketplace where prices established in the block trading marketplace do not have to closely correlate with the prices traded in the centralized market.

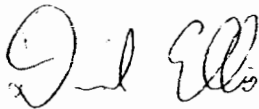
The reporting process for a Eurex US block trade continues to move further away from the traditional standard of open and competitive trading. Instead of requiring a buyer to report "immediately" which should be the standard, Eurex US was allowed to establish 15 minutes as the reporting criteria. Now it appears that Eurex US is expanding the reporting requirements to 30 minutes for block trades that exceed 2500 contracts. This further exacerbates the information advantage block trading participants have over the general marketplace.

I urge the Commission to re-examine the modifications to the Eurex US block trading provisions and not allow these revisions to be implemented. The precedent of allowing

such dramatic changes to take effect through the CFTC's self certification process without benefit of a public comment period is not appropriate for issues of this magnitude.

These modifications could have a major negative impact on all financial futures markets and therefore should be subject to a thorough and deliberate review process and public comment period.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Ellis', with a stylized, cursive script.

David Ellis - President
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